Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

REPLY COMMENTS OF WORLDCOM, INC., D/B/A MCI

WorldCom, Inc., D/B/A MCI ("MCI") hereby files reply comments in the above-referenced proceeding regarding the Federal Communications Commission's (Commission) rules related to high-cost universal service support and the ETC designation process.

MCI shares the concerns of AT&T and others that increases in the size of the universal service fund are threatening the sustainability of universal service.[1] At the same time, MCI agrees with commenters such as Sprint and Nextel that encouraging competitive entry in all markets is an important universal service goal.[2] The Commission should balance these objectives by capping per-line support in areas where a competitive carrier has entered; maintaining support levels provided to carriers using unbundled network elements (UNEs); not tying universal service support to an individual carrier's costs; and supporting all lines unless administrative and competitive issues associated with supporting only primary lines can be resolved.

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[1] See, e.g., AT&T Comments at i; SBC Comments at 13-14; Sprint Comments at 4.
[2] Nextel Comments at ii; Sprint Comments at 1-4.

I. A PER-LINE CAP ON SUPPORT IS NEEDED ONCE COMPETITIVE ENTRY OCCURS

MCI agrees with commenters supporting a cap on per-line high cost support in areas where a competitive carrier has entered.[3] Absent such a cap, an incumbent LEC would continue to report the total costs for serving all lines, but would receive support only for those lines that it still served. This would raise the per-line cost, and in turn raise the level of universal service support provided to both incumbent and competitive carriers. Moreover, this would result in the universal service fund compensating incumbent LECs for their competitive losses.

To avoid this problem, once a competitive carrier has begun serving a high-cost area, the per-line cost used to compute the universal service support for that area should be fixed at the per-line level in existence just prior to the competitor's entry. This will help ensure that the universal service fund does not provide carriers with excessive universal service subsidies and does not become a means by which the incumbent LEC is insured against all competitive losses.

We do not agree with Verizon's proposal to adjust this frozen per-line support amount by the rural growth factor, as this will result in the provision of excessive support.[4] The rural growth factor is the sum of the percentage change in the Gross Domestic Product – Chained Price Index (GDP-CPI) and the percentage growth in rural LEC lines.[5] This factor is currently used to adjust the size of rural carriers' loop cost expenses in determining universal service support amounts. The use of the factor for this purpose is reasonable because the percentage change in the GDP-PCI adjusts the fund

[3] See, e.g., Verizon Comments at 3; AT&T Comments at 17-22; Sprint Comments at 13.
[4] Verizon Comments at 3.

size for changes in per-line costs, and the growth in lines adjusts the fund to reflect any increase or decrease in the number of lines. However, using this factor to adjust the per-line support would overstate the needed change, because it would increase the per-line support amount for the growth in lines. Clearly, the only adjustment that would need to be made to a frozen per-line cost is the change in per-line costs. The Commission's current rules use the GDP-PCI for this purpose, and any adjustment to the frozen per-line amount of support should be no greater than this amount. In fact, this is likely to be a conservatively high estimate of the change in per-line costs. If the telecommunications industry achieves higher overall productivity than the United States economy as a whole, then the change in per-line costs is likely to be lower than the change in the GDP-PCI.

II. COMPETITVE CARRIERS PROVIDING SERVICE VIA UNES SHOULD NOT RECEIVE REDUCED SUPPORT AMOUNTS, AND SUPPORT SHOULD NOT BE TIED TO INDIVIDUAL COMPANIES' COSTS

Several BOCs argue that competitive carriers that use UNEs to provide service should have their universal service support reduced by an amount based on the cost of the UNEs.[6] These proposals ignore the fact that both universal service support and the price of UNEs are set using the same definition of the cost of providing service, i.e., total element long-run incremental cost (TELRIC), which reflects the economic cost of the incumbent in providing service. Thus, both the incumbent and the carrier using UNEs purchased from the incumbent face the same costs. If properly set at TELRIC levels, and properly disaggregated to reflect cost differentials, UNE rates and universal service costs should not cause the disparity the incumbents claim.

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[5] See 47 C.F.R § 36.604.
[6] See, e.g., BellSouth Comments at 10; SBC Comments at 9-10; Verizon Comments at 9-10. For example, BellSouth argues that CLECs using UNEs to provide service should receive support equal to 76 percent of

At its worst, the incumbents' argument is simply that different carriers have different costs and therefore should receive varying support amounts. But as MCI discussed in our initial comments, providing differing levels of support to carriers depending on their costs will simply support the inefficiencies of the higher-cost carrier. For this reason support for all carriers should be based on the cost of the most efficient carrier. This will ensure that sufficient but not excessive support is available to provide service priced at an acceptable level. Several commenters agree with this approach. For example, AT&T explained that, "paying CETCs and ILECs different amounts of per-line support would use the USF to support ILEC inefficiency rather than push ILECs to eliminate their inefficiencies. The High Cost Support mechanisms are not intended to, and should not, shield inefficient carriers from market pressures to reduce costs."[7] BellSouth similarly states that, "the current methodology provides an incentive for both the incumbent and competitive ETCs to operate more efficiently. If a competitive ETC is able to serve a customer's line at a much lower cost than the incumbent, that ETC may be able to charge lower rate thereby winning customers away from the ILEC. The potential loss of customers would motivate the incumbent to conduct business in a more efficient manner."[8] Indeed, not tying universal service support to an individual carrier's costs is good for competition and good for consumers.

In addition, we concur with commenters such as USTA and BellSouth that providing carrier-specific support would require all carriers to provide cost data in a consistent format to the regulators, which would be problematic given the varying

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the difference between the UNE rate and the statewide average cost of universal service, or the support received by the ILEC, whichever is less.

[7] AT&T Comments at 16.

[8] BellSouth Comments at 8.

reporting requirements imposed on wireless carriers, CLECs, and ILECs and the various technologies used by each.[9]

III. SUPPORT SHOULD BE PROVIDED FOR ALL LINES UNLESS COMPETITIVE AND ADMINISTRATIVE ISSUES CAN BE RESOLVED

We agree with commenters such as SBC that providing support for all lines is unnecessary to promote the universal service goals of affordability and comparability.[10] Support for one line is sufficient for these purposes. However, as explained in our initial comments and those of commenters such as USTA, RICA, and the Nebraska Rural Independent Companies, the administrative hurdles of identifying which line is the primary line at any given time are significant and must be resolved.[11]

Supporting only primary lines also could have anti-competitive results unless stringent rules are established to ensure that customers have an equal opportunity to select a CLEC as its "primary line" provider as they do the ILEC. We agree with Nextel that, "while defining universal service to be a single primary connection could have benefits, as applied to rural ILECs, there are many ways that such a limit could be drawn to make it extremely difficult for any carrier other than the incumbent to get universal service support."[12] Indeed Verizon's comments reveal the potential for just such a competitively harmful result. Verizon identifies what it characterizes as an administrative problem – duplicate support received by ILECs and CLECs – and proposes a solution that would make it difficult for CLECs to receive support. Verizon proposes that support be provided to "new" or "captured" CLEC lines only if the CLEC

[9] USTA Comments at 7; BellSouth Comments at 7-8.
[10] SBC Comments at 12-16.
[11] See USTA Comments at 6; RICA Comments at 25; Nebraska Rural Independent Companies Comments at 24.

customer certifies that he or she does not have a connection to the network provided by the ILEC. This rule would mean that where a customer has two landline connections, one each provided by an ILEC and a CLEC, or a landline connection provided by an ILEC and a wireless connection provided by a wireless carrier, the ILEC would be the carrier to receive support. Customers must be given the ability to select the CLEC as the "primary provider" just as easily as he or she can select the ILEC. The ILEC should not be the "default primary provider." The administrative hurdles in making such a process work smoothly and effectively contribute to MCI's hesitation to support only primary lines.

IV. CONCLUSION

For the reasons described above, the Joint Board should recommend that the Commission cap per-line support in areas where a competitive carrier has entered; maintain support levels provided to carriers using unbundled network elements (UNEs); not tie universal service support to an individual carrier's costs; and support all lines unless and until administrative and competitive issues associated with supporting only primary lines can be resolved.

Respectfully submitted,
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[12] Nextel Comments at 15.